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The Mayor and Town Council
Elwood Town
Elwood, UT 84337

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elwood, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Elwood, Utah. Our responsibility is to express opinions on these financial statements based on our audit.

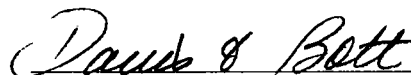
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elwood, Utah, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
Elwood Town

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, on our consideration of Elwood, Utah's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10, and on pages 34 through 37, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Davis & Bott
Certified Public Accountants, L.C.

October 6, 2006

Elwood Town
June 30, 2006

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Elwood Town
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2006

As management of Elwood, Utah, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- A. The assets of the Town exceeded its liabilities at June 30, 2006, by \$1,698,135. Of this amount, unrestricted net assets of \$399,594 may be used to meet the Town's ongoing obligations to citizens and creditors.
- B. The total net assets increased by \$287,204 over the fiscal year ended June 30, 2005. Of this amount \$180,715 was associated with governmental and \$106,489 with business-type activities.
- C. As of the close of the fiscal year ended June 30, 2006, the Town's governmental funds reported combined ending fund balances of \$309,732, an increase of \$20,987 in comparison with the prior year. Of this amount, \$258,740 is unreserved and available for spending. The remaining \$50,992 has been reserved due to legal restrictions involving parties outside the financial reporting entity.
- D. At the end of the June 30, 2006, fiscal year, unreserved fund balance for the general fund was \$84,712, or 54 percent of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

See Accountants' Report

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town principally supported by taxes and intergovernmental revenues (governmental activities) from other functions intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, parks and redevelopment. The business-type activities of the Town consist of culinary water.

The government-wide financial statements include not only the Town itself (known as the primary government) but also a legally separate redevelopment agency which is a component unit of the Town. Financial information for this component unit is reported entirely within the primary government report.

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Town maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, cemetery fund, redevelopment agency fund, impact fee fund and capital projects fund. All, except the cemetery fund, are considered major funds.

The Town adopts a one-year budget for its governmental funds. Budgetary comparison statements have been provided.

Proprietary Funds. The Town maintains only one type of proprietary fund; namely, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the water utility fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Elwood Town
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2006, the Town's assets exceeded liabilities by \$1,698,135. By far, the largest portion of the Town's net assets (72 percent) reflects its investment in capital assets. Capital assets are used to provide services to citizens and they are not available for future spending.

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 391,604	\$ 334,589	\$ 1,697,079	\$ 160,406	\$ 2,088,683	\$ 494,995
Capital assets	<u>428,349</u>	<u>273,468</u>	<u>969,271</u>	<u>695,190</u>	<u>1,397,620</u>	<u>968,658</u>
Total assets	819,953	608,057	2,666,350	855,596	3,486,303	1,463,653
Long-term liabilities outstanding	9,502	21,733	1,530,000	-	1,539,502	21,733
Other liabilities	<u>61,906</u>	<u>18,494</u>	<u>186,760</u>	<u>12,495</u>	<u>248,666</u>	<u>30,989</u>
Total liabilities	71,408	40,227	1,716,760	12,495	1,788,168	52,722
Net assets:						
Investment in capital assets, net of related debt	428,349	273,468	799,669	695,190	1,228,018	968,658
Restricted	50,992	87,124	19,531	22,979	70,523	110,103
Unrestricted	<u>269,204</u>	<u>207,238</u>	<u>130,390</u>	<u>124,932</u>	<u>399,594</u>	<u>332,170</u>
Total net assets	\$ <u>748,545</u>	\$ <u>567,830</u>	\$ <u>949,590</u>	\$ <u>843,101</u>	\$ <u>1,698,135</u>	\$ <u>1,410,931</u>

The restricted portion of the net assets \$70,523 (4 percent) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets \$399,594 (24 percent) may be used to meet the Town's ongoing obligations to citizens and creditors.

See Accountants' Report

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

At the end of the June 30, 2006, fiscal year the Town was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its combined governmental and business-type activities.

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2005	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 38,047	\$ 31,229	\$ 79,347	\$ 78,659	\$ 117,394	\$ 109,888
Operating grants and contributions	111,708	101,578	74,756	64,562	186,464	166,140
Capital grants and contributions	86,500	62,500	17,000	31,200	103,500	93,700
General revenues:						
Property taxes	25,537	31,108	-	-	25,537	31,108
Other taxes	81,603	53,756	-	-	81,603	53,756
Other	12,907	6,282	10,433	4,819	23,340	11,101
Total revenues	<u>356,302</u>	<u>286,453</u>	<u>181,536</u>	<u>179,240</u>	<u>537,838</u>	<u>465,693</u>
Expenses:						
General government	69,381	53,931	-	-	69,381	53,931
Public safety	5,913	3,214	-	-	5,913	3,214
Streets and public works	79,695	34,205	-	-	79,695	34,205
Parks	20,598	20,007	-	-	20,598	20,007
Water utility	-	-	75,047	74,251	75,047	74,251
Total expenses	<u>175,587</u>	<u>111,357</u>	<u>75,047</u>	<u>74,251</u>	<u>250,634</u>	<u>185,608</u>
Increase (decrease) in net assets	180,715	175,096	106,489	104,989	287,204	280,085
Net assets, beginning	567,830	412,668	843,101	738,112	1,410,931	1,150,780
Prior period adjustment	-	(19,934)	-	-	-	(19,934)
Net assets, ending	<u>\$ 748,545</u>	<u>\$ 567,830</u>	<u>\$ 949,590</u>	<u>\$ 843,101</u>	<u>\$ 1,698,135</u>	<u>\$ 1,410,931</u>

See Accountants' Report

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

Governmental and Business-Type Activities. Governmental activities increased the Town's net assets by \$180,715. When combined with the \$106,489 increase in net assets from business-type activities, overall net assets increased by \$287,204 or 20 percent.

The increase in governmental net assets is mainly due to capitalizing the new road constructed. The increase in the business-type activities is due mainly to the construction of new water lines.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Government Funds. The purpose of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the Town's chief operating fund. At June 30, 2006, the unreserved fund balance of the general fund was \$84,712, which comprises the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved (and total) general fund balance represents 54 percent of total general fund expenditures. The fund balance of the Town's general fund decreased by \$1,532 during the fiscal year ended June 30, 2006.

The cemetery fund balances remained mainly unchanged from prior years. The Redevelopment Agency fund balance increased by \$12,231, bringing its fund balance to \$(23,502). This fund is getting started and the deficit should be repaid as property tax revenues continue to be received. The impact fees fund decreased by \$36,132 as the Town spent this money on several projects.

The capital projects fund increased mainly because of the transfer from the general fund to accumulate funds for future projects. The water utility fund's net assets increased by \$106,489. This was due mainly to the recognition of impact fees as current revenues while the new water lines were being capitalized and depreciated.

See Accountants' Report

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenue budgets were increased mainly due to higher than expected taxes and receipt of Class "C" road money. The streets and public works budget was decreased due to the decision to use the impact fees fund to provide resources for several projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2006, the Town's investment in capital assets for its governmental and business-type activities amounted to \$1,397,620 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, service lines, equipment, roads and similar infrastructure. The total increase in the Town's investment in capital assets for the fiscal year ended June 30, 2006, was \$428,962, an increase of 57 percent for governmental activities and an increase of 39 percent for business-type activities.

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 65,000	\$ 22,500	\$ 8,255	\$ -	\$ 73,255	\$ 22,500
Buildings	58,226	60,645	-	-	58,226	60,645
Improvements other than buildings	290,358	175,001	576,807	608,667	867,165	783,668
Construction in progress	-	-	309,109	-	309,109	-
Equipment	<u>14,765</u>	<u>15,322</u>	<u>75,100</u>	<u>86,523</u>	<u>89,865</u>	<u>101,845</u>
Net capital assets	<u>\$ 428,349</u>	<u>\$ 273,468</u>	<u>\$ 969,271</u>	<u>\$ 695,190</u>	<u>\$ 1,397,620</u>	<u>\$ 968,658</u>

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Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

DEBT

In June, 2006, the Town bonded for \$1,530,000 of debt in the water utility fund in the form of revenue bonds. The money is being used to help finance a new tank and water line. Prior to this debt, the Town had no long-term debt.

	June 30, <u>2006</u>	June 30, <u>2005</u>
Outstanding debt, business type activities	\$ <u>1,530,000</u>	\$ <u>-</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS AND RATES

The Elwood Town Council is considering a sewer system throughout the Town. An application has been submitted to the state for funding of this study.

The Town has focused on needed road repairs since the water loan is underway.

The cook shack extension to the big bowery will begin in the fall, 2006, and is projected to be completed before summer, 2007.

A surface drain is in the process of being engineered to carry spring flood waters to the Town park.

See Accountants' Report

Elwood Town
Statement of Net Assets
June 30, 2006

	Primary Government		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$356,285	\$ 118,037	\$ 474,322
Accounts receivable - net	-	6,009	6,009
Due from other governmental units	55,821	-	55,821
Prepaid expenses	3,000	-	3,000
Internal balances	(23,502)	23,502	-
Restricted assets	-	1,549,531	1,549,531
Capital assets (net of accumulated depreciation)			
Land	65,000	8,255	73,255
Buildings	58,226	-	58,226
Improvements	290,358	576,807	867,165
Construction in progress	-	309,109	309,109
Equipment	<u>14,765</u>	<u>75,100</u>	<u>89,865</u>
Total assets	<u>819,953</u>	<u>2,666,350</u>	<u>3,486,303</u>
LIABILITIES			
Accounts payable and accrued liabilities	47,678	172,582	220,260
Deferred revenue	23,730	14,178	37,908
Revenue bonds	<u>-</u>	<u>1,530,000</u>	<u>1,530,000</u>
Total liabilities	<u>71,408</u>	<u>1,716,760</u>	<u>1,788,168</u>
NET ASSETS			
Invested in capital assets, net of related debt	428,349	799,669	1,228,018
Restricted - capital improvements	-	19,531	19,531
Restricted - impact fees	50,992	-	50,992
Unrestricted	<u>269,204</u>	<u>130,390</u>	<u>399,594</u>
Total net assets	<u>\$748,545</u>	<u>\$ 949,590</u>	<u>\$1,698,135</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Activities
For the Year Ended June 30, 2006

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental						
activities:						
General government	\$ 69,381	\$ 3,063	\$ -	\$ -	\$ (66,318)	\$ (66,318)
Public safety	5,913	32,116	574	-	26,777	26,777
Streets and public works	79,695	-	106,213	51,500	78,018	78,018
Parks and recreation	20,598	2,868	4,921	35,000	22,191	22,191
	<u>175,587</u>	<u>38,047</u>	<u>111,708</u>	<u>86,500</u>	<u>60,668</u>	<u>60,668</u>
Business-type						
activities:						
Water utility	<u>75,047</u>	<u>79,347</u>	<u>74,756</u>	<u>17,000</u>	<u>-</u>	<u>96,056</u>
						<u>96,056</u>
Total primary government activities	<u>\$ 250,634</u>	<u>\$ 117,394</u>	<u>\$ 186,464</u>	<u>\$ 103,500</u>	<u>60,668</u>	<u>156,724</u>
General revenues:						
Taxes:						
Property taxes					25,537	25,537
General sales and use taxes					81,603	81,603
Unrestricted investment earnings					<u>12,907</u>	<u>10,433</u>
						<u>23,340</u>
Total general revenues					<u>120,047</u>	<u>130,480</u>
Change in net assets					<u>180,715</u>	<u>106,489</u>
Net assets - beginning					<u>567,830</u>	<u>843,101</u>
Net assets - ending					<u>\$ 748,545</u>	<u>\$ 949,590</u>
						<u>\$ 1,698,135</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Balance Sheet - Governmental Funds
June 30, 2006

	General Fund	Redevel. Agency Fund	Impact Fees Fund	Capital Projects Fund	Other Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 64,763	\$ -	\$ 93,992	\$ 157,679	\$ 39,851	\$ 356,285
Intergovernmental receivables (net)						
Property tax	10,787	14,000	-	-	-	24,787
Sales tax	17,020	-	-	-	-	17,020
Class "C" road money	14,014	-	-	-	-	14,014
Prepaid expense	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Total assets	<u>\$ 109,584</u>	<u>\$ 14,000</u>	<u>\$ 93,992</u>	<u>\$ 157,679</u>	<u>\$ 39,851</u>	<u>\$ 415,106</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 4,678	\$ -	\$ 43,000	\$ -	\$ -	\$ 47,678
Interfund payable	-	14,000	-	-	-	14,000
Deferred revenue	20,194	14,000				34,194
Advance from other fund	<u>-</u>	<u>9,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,502</u>
Total liabilities	<u>24,872</u>	<u>37,502</u>	<u>43,000</u>	<u>-</u>	<u>-</u>	<u>105,374</u>
Fund balances:						
Reserved for:						
Impact fees	-	-	50,992	-	-	50,992
Unreserved, reported in:						
General fund	84,712	-	-	-	-	84,712
Special revenue fund	-	(23,502)	-	-	39,851	16,349
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,679</u>	<u>-</u>	<u>157,679</u>
Total fund balances	<u>84,712</u>	<u>(23,502)</u>	<u>50,992</u>	<u>157,679</u>	<u>39,851</u>	<u>309,732</u>
Total liabilities and fund balances	<u>\$ 109,584</u>	<u>\$ 14,000</u>	<u>\$ 93,992</u>	<u>\$ 157,679</u>	<u>\$ 39,851</u>	<u>\$ 415,106</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Reconciliation of the Balance Sheet of the Governmental
Funds to the Statement of Net Assets
June 30, 2006

Total fund balances - governmental fund types	\$ 309,732
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	428,349
Revenues not considered available are deferred in the funds.	<u>10,464</u>
Net assets of government activities	<u>\$ 748,545</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Redevel. Agency Fund	Impact Fees Fund	Capital Projects Fund	Other Fund	Total Governmental Funds
Revenues:						
Taxes						
Property	\$ 11,719	\$ 13,818	\$ -	\$ -	\$ -	\$ 25,537
Sales and use	76,756	-	-	-	-	76,756
Licenses and permits	33,366	-	-	-	-	33,366
Intergovernmental	66,849	-	-	-	-	66,849
Charges for services	2,088	-	-	-	-	2,088
Impact fees	-	-	44,859	-	-	44,859
Miscellaneous revenue	2,593	-	-	-	-	2,593
Interest earnings	<u>3,238</u>	<u>-</u>	<u>3,249</u>	<u>5,262</u>	<u>1,158</u>	<u>12,907</u>
Total revenues	<u>196,609</u>	<u>13,818</u>	<u>48,108</u>	<u>5,262</u>	<u>1,158</u>	<u>264,955</u>
Expenditures:						
Current:						
General government	64,972	1,587	-	-	-	66,559
Public safety	5,913	-	-	-	-	5,913
Streets and public works	67,640	-	81,683	-	-	149,323
Parks and recreation	<u>19,616</u>	<u>-</u>	<u>2,557</u>	<u>-</u>	<u>-</u>	<u>22,173</u>
Total expenditures	<u>158,141</u>	<u>1,587</u>	<u>84,240</u>	<u>-</u>	<u>-</u>	<u>243,968</u>
Excess of revenues over expenditures	<u>38,468</u>	<u>12,231</u>	<u>(36,132)</u>	<u>5,262</u>	<u>1,158</u>	<u>20,987</u>
Other financing sources (uses):						
Transfers in (out)	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	<u>(1,532)</u>	<u>12,231</u>	<u>(36,132)</u>	<u>45,262</u>	<u>1,158</u>	<u>20,987</u>
Fund balance at beginning of year						
	<u>86,244</u>	<u>(35,733)</u>	<u>87,124</u>	<u>112,417</u>	<u>38,693</u>	<u>288,745</u>
Fund balance at end of year						
	<u>\$ 84,712</u>	<u>\$ (23,502)</u>	<u>\$ 50,992</u>	<u>\$ 157,679</u>	<u>\$ 39,851</u>	<u>\$ 309,732</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of the Governmental
Funds to the Statement of Activities
June 30, 2006

Amounts reported for governmental
activities in the statement of
activities are different because:

Net changes in fund balances - total governmental funds	\$ 20,987
--	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	154,881
---	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as in the funds.	<u>4,847</u>
--	--------------

Change in net assets of govern- mental activities	<u><u>\$ 180,715</u></u>
--	--------------------------

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Net Assets - Proprietary Fund
June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 118,037
Accounts receivable - net	6,009
Interfund receivable	<u>14,000</u>
Total current assets	<u>138,046</u>
Noncurrent assets:	
Advance to other funds	9,502
Restricted assets	1,549,531
Capital assets (net of accumulated depreciation):	
Land	8,255
Improvements	576,807
Equipment	75,100
Construction in progress	<u>309,109</u>
Total noncurrent assets	<u>2,528,304</u>
Total assets	<u>2,666,350</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	172,582
Deferred revenue	<u>14,178</u>
Current portion of long-term debt	
Total current liabilities	186,760
Long term liabilities	
Revenue bonds	<u>1,530,000</u>
Total liabilities	<u>1,716,760</u>
NET ASSETS	
Invested in capital assets, net of related debt	799,669
Restricted - for capital improvements	19,531
Unrestricted	<u>130,390</u>
Total net assets	<u>\$ 949,590</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Revenues, Expenses and Changes in Fund
Net Assets - Proprietary Fund
For the Year Ended June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
Operating revenues:	
Water sales (net of \$4,234 discount)	\$ 79,347
Total operating revenues	<u>79,347</u>
Operating expenses:	
Salaries and wages	4,327
Materials and supplies	14,574
Maintenance and repairs	10,404
Utilities	2,947
Professional services	9,005
Depreciation	<u>33,790</u>
Total operating expenses	<u>75,047</u>
Operating income	<u>4,300</u>
Nonoperating revenues:	
Interest revenue	10,433
Impact fees	<u>74,756</u>
Total nonoperating revenues	<u>85,189</u>
Income before contributions	89,489
Capital contributions - developers	<u>17,000</u>
Change in net assets	106,489
Total net assets, beginning	<u>843,101</u>
Total net assets, ending	<u>\$ 949,590</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
Cash flows from operating activities:	
Receipts from customers	\$ 90,011
Payments to suppliers	(34,840)
Payments to employees	<u>(4,327)</u>
Net cash provided by operating activities	<u>50,844</u>
Cash flows from noncapital financing financing activities:	
Interfund loan repayments received	<u>8,231</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(121,269)
Proceeds of revenue bonds	1,530,000
Impact fees received	<u>74,756</u>
Net cash provided by capital and related financing activities	<u>1,483,487</u>
Cash flows from investing activities:	
Interest and dividends received	<u>10,433</u>
Net increase in cash and cash equivalents	1,552,995
Cash and cash equivalents, beginning	<u>114,573</u>
Cash and cash equivalents, end	<u><u>\$ 1,667,568</u></u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>4,300</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	33,790
(Increase) decrease in accounts receivable	8,091
Increase (decrease) in accounts payable	2,090
Increase (decrease) in deferred revenue	<u>2,573</u>
Total adjustments	<u>46,544</u>
Net cash provided by operating activities	\$ <u><u>50,844</u></u>
Noncash investing, capital and financing activities:	
Capital assets contributed by developers	\$ <u><u>17,000</u></u>

The accompanying notes are an integral part of these statements.

Elwood Town
Notes to Financial Statements
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The government of Elwood Town is governed by an elected mayor and four-member council. As required by generally accepted accounting principles, these financial statements present the government and its component unit, the Elwood Town Redevelopment Agency (Agency), an entity for which the government is considered to be financially accountable. It is considered a blended component unit since its chairman is the Town's mayor and it is financially dependent on the Town; therefore, its data is combined with data of the primary government. The Agency has a June 30 year end.

B. Government-Wide and Fund Financial Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental and proprietary funds. All individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The government has the following fund types:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available").

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers all revenues available if they are collected within 30 days after year end. The Town considers Class "C" road money to be available if collected within 60 days. Expenditures are recorded when the related fund liability is incurred.

Governmental funds include the following fund types:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **special revenue funds** account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The **capital projects funds** account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

See Independent Auditors' Report.

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal operating revenues of proprietary funds are charges to customers of the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Town has decided the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Town has only one proprietary fund, the water utility fund, which delivers culinary water to Town citizens.

D. Assets, Liabilities and Equity

i. *Cash and Investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with the original maturities of three months or less from the date of acquisition. Currently, the only investing is done with the State Treasurer's Investment Pool.

ii. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds," if they are not projected to be repaid within one year, and as "interfund receivable/payable" for amounts projected to be repaid within one year. The interfund loans were to help start the Redevelopment Agency fund.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii. Capital Assets

Capital assets used in governmental-fund type operations are accounted for in the governmental activities column in the statement of net assets, but not in governmental funds. Governmental capital assets consisting of certain improvements other than buildings, including roads, bridges, streets, drainage systems, and lighting system placed in service prior to June 30, 2003, have not been capitalized.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets is charged as an expense against its operations in the government-wide financial statements and the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide and proprietary fund statements of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	40 years
Water system	40 years
Equipment	5-20 years

E. Budget and Budgetary Accounting

The Town follows the budget and budgetary accounting procedures established by Utah law and described in the Uniform Accounting Manual for Utah Cities and Towns. The current year budget was amended according to Utah law.

F. Interfund Transfers

The transfer from the general fund to the capital projects fund was to provide funding for future capital projects.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

H. Restricted Assets

The Town's restricted cash represents bond proceeds and required Town contributions that must be spent on the new tank and water line being constructed.

NOTE 2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state, and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Town follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the deposit of the Town's funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

A. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$201,938 of the Town's bank balances of \$341,798 was uninsured and uncollateralized.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Town's funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers or directly with issuers of the investment securities.

These statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF, and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses - net of administration fees - of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2006, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
State of Utah Public Treasurer's Investment Fund	<u>\$1,691,440</u>	<u>\$1,691,440</u>			

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations to 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act, as previously discussed.

At June 30, 2006, the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	<u>\$1,691,440</u>				<u>\$1,691,440</u>

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

E. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council, as applicable.

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Government assets not being depreciated:				
Land	\$ 22,500	\$ 42,500	\$ -	\$ 65,000
Capital assets being depreciated:				
Buildings	96,740	-	-	96,740
Improvements	187,540	124,640	-	312,180
Machinery and equipment	35,403	2,092	-	37,495
Total capital assets being depreciated	319,683	126,732	-	446,415
Less accumulated depreciation:				
Buildings	36,096	2,418	-	38,514
Improvements	12,538	9,284	-	21,822
Machinery and equipment	20,081	2,649	-	22,730
Total accumulated depreciation	68,715	14,351	-	83,066
 Total capital assets being depreciated - net	 250,968	 112,381	 -	 363,349
 Governmental activities capital assets - net	 \$ 273,468	 \$154,881	 \$ -	 \$ 428,349

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 3. CAPITAL ASSETS (Continued)

Business-Type Activities

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-type assets not being depreciated:				
Land	\$ -	\$ 8,255	\$ -	\$ 8,255
Construction in progress	26,493	282,616	-	309,109
Total	<u>26,493</u>	<u>290,871</u>	<u>-</u>	<u>317,364</u>
Capital assets being depreciated:				
Improvements	891,832	17,000	-	908,832
Machinery and equipment	129,471	-	-	129,471
Total capital assets being depreciated	<u>1,021,303</u>	<u>17,000</u>	<u>-</u>	<u>1,038,303</u>
Less accumulated depreciation:				
Improvements	309,658	22,367	-	332,025
Machinery and equipment	42,948	11,423	-	54,371
Total accumulated depreciation	<u>352,606</u>	<u>33,790</u>	<u>-</u>	<u>386,396</u>
Total capital assets being depreciated - net	<u>668,697</u>	<u>(16,790)</u>	<u>-</u>	<u>651,907</u>
Business-type activities capital assets - net	\$ <u>695,190</u>	\$ <u>274,081</u>	\$ <u>-</u>	\$ <u>969,271</u>

Depreciation expense was charged to functions as follows at June 30:

Governmental activities:

General governmental	\$ 2,822
Streets and public improvements	8,641
Parks and recreation	<u>2,888</u>
Total depreciation expense governmental activities	\$ <u>14,351</u>

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 4. LONG-TERM LIABILITIES

The following is a summary of changes to the Town's noncurrent liabilities during the fiscal year ended June 30, 2006:

	Proprietary Fund				
	Beginning Balance <u>06/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>06/30/2006</u>	Due Within <u>One Year</u>
Revenue bonds	\$ -	\$ 1,530,000	\$ -	\$ 1,530,000	\$ -

In January, 2006, the Town issued Series 2005 water revenue bonds in the amount of \$1,530,000 bearing interest at 3.50 percent per annum. The bonds are secured by 100 percent of the net revenues produced by the Town's water system. Payments ranging from \$11,156 to \$117,990 are due annually beginning September 1, 2007, with the final payment due on September 1, 2031.

The annual debt service requirements for the Series 2005 water revenue bonds are as follows:

				<u>Business-Type Activities</u>
Year ended June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2007	\$ -	\$ 11,156	\$ 11,156	
2008	1,000	53,550	54,550	
2009	5,000	53,515	58,515	
2010	9,000	53,340	62,340	
2011	14,000	53,025	67,025	
2012-2016	166,000	253,435	419,435	
2017-2021	331,000	212,030	543,030	
2022-2026	407,000	148,155	555,155	
2027-2031	483,000	71,820	554,820	
2032	<u>114,000</u>	<u>3,990</u>	<u>117,990</u>	
Total	\$ <u>1,530,000</u>	\$ <u>914,016</u>	\$ <u>2,444,016</u>	

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 5. PROPERTY TAX

Property taxes attached as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. Property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB. Property taxes received within thirty (30) days of year end are recognized as revenue at year end.

NOTE 6. NET ASSET FUND BALANCE RESERVATION

The Town has enacted impact fees for water, sewer, parks, streets and storm sewer. Amounts collected but not spent by year end, plus accrued interest, are reserved or restricted until spent or returned to the payor. The Town also secured revenue bonds in the water utility fund. The bonds required a 10 percent contribution by the Town. The portion of the 10 percent not spent by year end is restricted for capital outlay.

NOTE 7. RISK MANAGEMENT

Elwood Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. All general liability, real property and all vehicles, including heavy equipment, are insured through a commercial policy (errors and omissions), and injuries to employees are self insured. Settled claims have not exceeded the Town's insurance coverage for any of the past three years. For insured programs, there have been no significant reductions in insurance coverage.

NOTE 8. REDEVELOPMENT AGENCY FUND

Tax increment monies in the amount of \$13,818 were generated from the RDA #1 project area within the Redevelopment Agency. No tax increment was paid to other taxing agencies. There were no bonds issued or other loans incurred to finance the costs associated with the project area.

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 8. REDEVELOPMENT AGENCY FUND (Continued)

During the year, the RDA expended monies as follows:

Acquisition of property	\$ -
Site improvements/preparation costs	4,000
Installation of public improvements	-
Administration costs	-
Debt repayment and bond issuance costs	9,818
	<u>\$ 13,818</u>

NOTE 9. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Funding of Deficit Fund Balance

The deficit fund balance in the redevelopment agency fund has been funded by loans from the water utility fund. These loans will be paid back with future property tax receipts.

B. Expenditures in Excess of Budget

The Town had three departments that incurred expenditures in excess of budget as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General government	\$ 63,823	\$ 64,972	\$ 1,149
Public safety	5,007	5,913	906
Streets and public works	<u>67,259</u>	<u>67,640</u>	<u>381</u>
Total	<u>\$ 136,089</u>	<u>\$ 138,525</u>	<u>\$ 2,436</u>

This is a violation of state law.

NOTE 10. COMMITMENTS

In June, 2006, the Town entered into four contracts to construct a new tank and water line. These contracts amounted to \$1,466,209. As of June 30, 2006, \$158,587 of the total had been completed. This amount is included in the water utility fund payable.

See Independent Auditors' Report

Elwood Town
Budget Comparison Schedule - General Fund (Unaudited)
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes				
Property	\$ 17,000	\$ 12,000	\$ 11,719	\$ (281)
Sales & Use	55,000	75,004	76,756	1,752
Licenses and permits	25,000	33,366	33,366	-
Intergovernmental	55,000	64,668	66,849	2,181
Charges for services	1,000	2,090	2,088	(2)
Miscellaneous revenue	5,000	2,595	2,593	(2)
Interest earnings	<u>5,000</u>	<u>4,487</u>	<u>3,238</u>	<u>(1,249)</u>
Total revenues	<u>163,000</u>	<u>194,210</u>	<u>196,609</u>	<u>2,399</u>
Expenditures:				
General government	50,000	63,823	64,972	(1,149)
Public safety	3,000	5,007	5,913	(906)
Streets and public works	171,000	67,259	67,640	(381)
Parks and recreation	<u>28,000</u>	<u>19,762</u>	<u>19,616</u>	<u>146</u>
Total expenditures	<u>252,000</u>	<u>155,851</u>	<u>158,141</u>	<u>(2,290)</u>
Excess of revenues over (under) expenditures	(89,000)	38,359	38,468	109
Other financing sources (uses):				
Transfers in (out)	<u>89,000</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	-	(1,641)	(1,532)	109
Fund balance, beginning of year	<u>86,244</u>	<u>86,244</u>	<u>86,244</u>	<u>-</u>
Fund balance, end of year	<u>\$ 86,244</u>	<u>\$ 84,603</u>	<u>\$ 84,712</u>	<u>\$ 109</u>

Elwood Town
Budget Comparison Schedule - Redevelopment Agency Fund
(Unaudited)
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$ 13,500	\$ 13,818	\$ 13,818	\$ -
Total revenues	<u>13,500</u>	<u>13,818</u>	<u>13,818</u>	<u>-</u>
Expenditures:				
Current:				
General government	<u>13,500</u>	<u>13,818</u>	<u>1,587</u>	<u>12,231</u>
Total expenditures	<u>13,500</u>	<u>13,818</u>	<u>1,587</u>	<u>12,231</u>
Excess of revenues over expenditures	-	-	12,231	12,231
Fund balance, beginning of year	<u>(35,733)</u>	<u>(35,733)</u>	<u>(35,733)</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (35,733)</u></u>	<u><u>\$ (35,733)</u></u>	<u><u>\$ (23,502)</u></u>	<u><u>\$12,231</u></u>

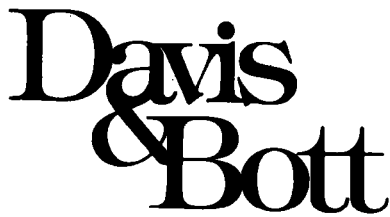
Elwood Town
Budget Comparison Schedule - Impact Fees Fund (Unaudited)
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Impact fees	\$ 47,220	\$ 44,859	\$ 44,859	\$ -
Interest earnings	<u>-</u>	<u>2,000</u>	<u>3,249</u>	<u>1,249</u>
Total revenues	<u>47,220</u>	<u>46,859</u>	<u>48,108</u>	<u>1,249</u>
Expenditures:				
Current:				
Streets and public works	-	81,683	81,683	-
Parks and recreation	<u>-</u>	<u>2,557</u>	<u>2,557</u>	<u>-</u>
Total expenditures	-	84,240	84,240	-
Excess of revenues over expenditures	<u>47,220</u>	<u>(37,381)</u>	<u>(36,132)</u>	<u>1,249</u>
Other financing sources (uses)				
Transfers in (out)	<u>(89,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing uses	<u>(89,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	(41,780)	(37,381)	(36,132)	1,249
Fund balance, beginning of year	<u>87,124</u>	<u>87,124</u>	<u>87,124</u>	<u>-</u>
Fund balance, end of year	<u>\$ 45,344</u>	<u>\$ 49,743</u>	<u>\$ 50,992</u>	<u>\$1,249</u>

Elwood Town
Note to Budgetary Comparison Schedule
June 30, 2006

The following departments of the general fund had expenditures in excess of budget. This is a violation of state law.

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General government	\$ 63,823	\$ 64,972	\$ 1,149
Public safety	5,007	5,913	906
Streets and public works	<u>67,259</u>	<u>67,640</u>	<u>381</u>
Total	\$ <u>136,089</u>	\$ <u>138,525</u>	\$ <u>2,436</u>



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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the Elwood Town Council
Elwood, Utah 84337

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Elwood, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town of Elwood's basic financial statements and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elwood, Utah's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could diversely affect Elwood, Utah's, ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying letter of recommendations as items 1 and 3.

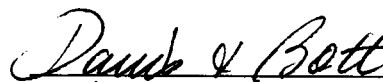
**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (Continued)**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elwood, Utah's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*. However, we noted immaterial instances of noncompliance we have reported to the management of Elwood, Utah, in a separate letter dated October 6, 2006.

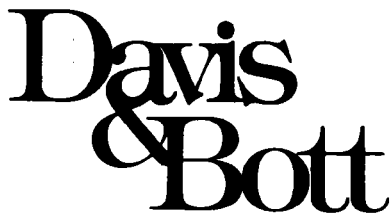
This report is intended solely for the information and use of management, the Town Council, and the various state funding and auditing agencies and is not intended to be, and should not be used by, anyone other than these specified parties.



Davis & Bott

Certified Public Accountants, L.C.

October 6, 2006



Certified Public Accountants, L.C.

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AUDITORS' REPORT ON STATE OF UTAH LEGAL COMPLIANCE

The Honorable Mayor and Members of the
Elwood Town Council
Elwood, Utah 84337

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Elwood, Utah, for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. As part of our audit, we have audited the Town of Elwood's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The Town received the following major assistance programs from the State of Utah:

- * B & C Road Funds (Department of Transportation)
- * Liquor Law Enforcement (State Tax Commission)

The Town received no nonmajor grants during the current audit period.

Our audit also included test work on the Town's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- * Public Debt
- * Cash Management
- * Purchasing Requirements
- * Budgetary Compliance
- * Truth in Taxation & Property Tax Limitations
- * Liquor Law Enforcement
- * B & C Road Funds
- * Other General Compliance Issues
- * Uniform Building Code Standards
- * Impact Fees and Other Development Fees

AUDITORS' REPORT ON STATE OF UTAH
LEGAL COMPLIANCE
(Continued)

The management of Elwood is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter of recommendations. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

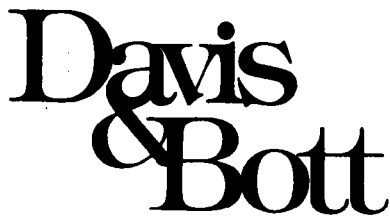
In our opinion, Elwood, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.



Davis & Bott

Certified Public Accountants, L.C.

October 6, 2006



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The Honorable Mayor and
Members of the Elwood Town Council
Elwood, UT 84337

We have audited the financial statements of Elwood Town for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. As part of our examination, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Town's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Elwood Town is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Elwood Town taken as a whole.

However, our study and evaluation disclosed the following reportable or agreed-upon conditions that we believe result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Elwood Town may occur and not be detected within a timely period.

RECOMMENDATIONS:

1. EXPENDITURES

Issue - The Town had three departments with expenditures in excess of budget by a combined total of \$2,436. This is a violation of state law.

Recommendation - We recommend expenditures not exceed budgeted amounts by department in the general fund and by total in the other funds.

Response - We will work to keep expenditures within amounts that have been budgeted.

2. TOWN POLICIES (Prior Year Recommendation)

Issue - State law requires each town to have a written and approved purchasing policy.

Recommendation - We recommend the Town prepare and approve a formal purchasing policy.

Response - We will adopt a purchasing policy.

Current Status - A policy has been drafted but has not yet been adopted.

3. SEGREGATION OF DUTIES (Prior Year Recommendation)

Issue - Elwood Town has insufficient segregation of duties due to the small size of the entity.

Recommendation - We recommend the Town look at the cost versus the benefit of improving the segregation of duties. Having the treasurer reconcile the bank statements and trace cash receipts to deposits should help controls.

RECOMMENDATIONS: (continued)

Response - The Town will implement this recommendation.

Current Status - The treasurer is now reconciling the bank statements and tracing cash receipts to deposits.

4. FIXED ASSETS (Prior Year Recommendation)

Issue - The Town often receives fixed assets such as land, water lines and roads when there is development. It is important to include these assets in the Town's financial records when they are received. A method needs to be adopted to determine the value of the assets received.

Recommendation - We recommend development be monitored closely to properly account for fixed assets received and that a method be adopted for valuing these assets.

Response - We will more closely monitor development and will adopt a valuation policy for those assets.

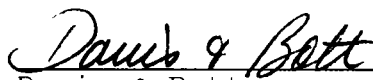
Current Status - Not implemented.

CONCLUSION

The matters discussed herein have been brought to the attention of responsible Town personnel during the course of our examination. As a result, many of these recommendations are either being implemented or are under consideration at the time of issuance of this letter.

We wish to take this opportunity to express our thanks and appreciation for the courtesy and assistance extended to us by your personnel during our audit work.

We welcome the opportunity to discuss further any points mentioned herein. We feel that proper implementation of these suggestions will improve internal controls and protect the Town's assets.



Davis & Bott
Certified Public Accountants, L.C.

October 6, 2006
Brigham City, Utah